

U.S. Asia Pacific Council

Washington REPORT

*News and analysis from Washington, D.C. about
key issues in U.S.-Asia Pacific Relations*

Volume 1 March 2006

Reshaping The Asia Pacific Economic Order

USAPC Interview with Prof. Christopher Findlay

Some Asian leaders have declared the emergence of a "new regionalism," pointing to the conclusion of numerous preferential trading agreements and other integrative initiatives. In *Reshaping The Asia Pacific Economic Order* (Routledge: 2005), the contributing authors examine the forces reshaping the Asia Pacific economic order and consider how these changes may affect transpacific ties.

During a recent visit to Washington, Prof. Christopher Findlay of Adelaide University, who co-edited the book with Dr. Hadi Soesastro of the Centre for Strategic and International Studies, discussed its main themes. In particular, he emphasized the importance of continued U.S. participation in the debate about Asia Pacific architectures and the value of using existing mechanisms — such as the Asia Pacific Economic Cooperation (APEC) forum — for this purpose.

USAPC: Some Americans are concerned that the United States may find its leadership role in Asia increasingly circumscribed by the proliferation of preferential trade agreements and the emergence of regional arrangements like the East Asia Summit. How does the book address these issues?

Findlay: The contributing authors are worried about that potential development, too. They are well aware of Washington's concern about the design of the East Asian Summit, but also of the region's interest in keeping the U.S. plugged in to the new architecture.

The bottom line of the book is that one cannot design a sensible architecture for Asia without considering the relationship of the region to the rest of the world. That means there is a good opportunity for non-Asian nations, and the United States in particular, to affect the design of East Asian architecture.

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Panel Considers Social Costs Of China's Economic Growth

The sharp increase in popular protests in China — 87,000 in 2005, up from 74,000 the year before — "keeps Chinese leaders up at night" and creates a sense of unease about the path of modernization, according to James R. Keith, senior advisor in the State Department's Bureau of East Asian and Pacific Affairs.

Keith testified February 2 before the U.S.-China Economic and Security Review Commission (USCC). The panel was established by Congress in 2000 to investigate and report to the U.S. legislature each year on the

national security implications of the U.S.-China economic relationship. This hearing focused on internal challenges facing China's leadership.

Income Distribution - Keith attributed the rise in public discontent to "serious inequities and structural weaknesses" resulting from China's rapid economic change. He noted that the incomes of urban dwellers are four times those of people in the countryside, where 800 million of China's 1.3 billion people live. Not only are rural residents acutely

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USAPC: What is the best means for the United States to provide such input?

Findlay: The United States could use of couple of existing mechanisms. APEC [Asia Pacific Economic Cooperation forum] is clearly one mechanism. APEC is often discounted as a "talk shop" that has little impact. But in fact, APEC has a great deal to offer.

Many of its work programs are extremely important and very effective. APEC's work on trade facilitation, in particular, has been very useful. It has provided very useful perspectives on how to combat terrorism through, for example, enhanced security of transport systems. Moreover, APEC serves as an important forum that brings together all the major regional players.

A top priority for the United States therefore should be to think smart about APEC. This is relevant to the East Asian architectural question we examine in the book. That is what "economic order" means in the book's title—how do you organize institutions for regional cooperation across a range of economic objectives.

APEC is important because it not only delivers very

"[T]he United States . . . should . . . think smart about APEC. This is relevant to the East Asian architectural question . . ."

specific and immediate benefits, such as the output of work programs, but it also is important for big strategic reasons. The authors of the book believe that APEC has ongoing capacity to serve these practical and strategic purposes.

Another theme of the book concerns using certain institutions for specific purposes. The authors say that nations must consider what they are trying to accomplish, whether this be through bilateral arrangements, through transpacific arrangements, like APEC, or through hemispheric arrangements, like an East Asian structure. It is important to understand the purpose of each arrangement and how they fit together.

There is a lot of discussion about how to use APEC versus the WTO [World Trade Organization]. APEC has all the important regional players at the table, but it also has a specific kind of strength. APEC is not set up to organize formal negotiating processes for trade liberalization. The WTO is designed for that. But APEC enables nations to share experiences, define good practices, and develop common customs and regulatory procedures, among other things.

People who say that APEC does not do anything do not understand its comparative strength. They try to push

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Congressional Watch

Legislation:

"Pillars of Competitiveness" Bills Address

Emergence Of China and India - On January 25, Senator Max Baucus (D., Montana), Ranking Minority member of the Senate Finance Committee, unveiled an ambitious legislative agenda. It is aimed at improving U.S. economic competitiveness so Americans can effectively meet the "challenge and opportunity" presented by China and India.

Baucus said he would introduce seven separate bills in the coming months to address U.S. competitiveness in education, energy, health, savings, research, tax, and international trade. These proposals constitute what he conceives as the seven "pillars of competitiveness." In particular, Baucus' proposed "Trade Competitiveness Act of 2006" would create a new Senate-confirmed Chief Trade Prosecutor in the Office of the U.S. Trade Representative (USTR) dedicated to investigating and prosecuting trade enforcement cases.

Working Groups:

New Senate China Working Group Formed -

Senators Norm Coleman (R., Minnesota) and Barack

Obama (D., Illinois) announced January 3 that they will form a new bipartisan policy group to serve as a forum for discussion about the rise of China as a political, economic, and military actor in both the regional and global arenas and the implications for U.S. interests. The so-called Senate China Working Group will function under the rubric of the U.S.-China Inter-Parliamentary Group, which is co-chaired by Senators Daniel Inouye (D., Hawaii) and Ted Stevens (R., Alaska).

House China Working Group - The creation of the Senate group follows the establishment in June 2005 of the 35-member House China Working Group by Congressmen Mark Kirk (R., Illinois) and Rick Larsen (D., Washington). According to Kirk, the House group will focus on "positive, specific key deliverables," aimed at expanding the U.S. presence in China. One such proposal calls for establishing more U.S. consulates across China and increasing diplomatic personnel at existing missions. Another proposal advocates setting up a "hot line" link between the Pentagon and China's defense ministry ostensibly to help reduce misunderstandings between the two militaries.

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aware of their relative poverty, but they also have become frustrated that their health care, education, social welfare services, and infrastructure pale in comparison to that provided to urban dwellers.

Legal System - Also fueling public discontent is an increasing awareness that the legal system does not function properly. More and more Chinese understand their personal and legal rights and are willing to assert them, but find they often are unable to secure protection from the courts and institutions to which they are appealing, according to Keith.

Social Safety Net - Finally, there is no adequate social safety net for about 80 percent of Chinese between the ages of 45 and 65. As a consequence, China's personal savings rate is quite high. Keith noted that in 2004, personal savings were 25 percent of gross domestic product. But since China's capital markets are still forming, it is difficult for this savings to be put to productive use as domestic investment. "It also limits domestic personal consumption, leaving China overly reliant on exports and foreign direct investment for growth," he said.

U.S. Response - Keith said the United States is endeavoring to help shape some of China's policy choices so Beijing can address internal challenges in ways "consistent with America's core values and interests." For example, initiatives under the State Department's Rule of Law

program promote legal reform, encourage public participation, and help strengthen civil society in China. In addition, the United States works with China on a variety of financial, environmental, health-related, and energy issues, including:

- The U.S. Treasury Department regularly consults with senior Chinese officials on macroeconomic and financial issues, and has begun a dialogue among U.S. and Chinese financial regulators.
- The U.S. Trade Representative and the Secretary of Commerce regularly take part in high-level meetings with their counterparts in China discussing market access, intellectual property, and other trade issues.
- The U.S. Labor Department is conducting programs in China on labor law and mine safety, and has letters of understanding with the Chinese on mine safety, occupational safety, pensions, and wage and hour law.
- The U.S. Department of Energy has a high-level and comprehensive bilateral energy dialogue with its counterpart Chinese agency to improve efficiency of coal and oil use, and to spur research into alternative sources of energy.
- The U.S. Department of Health and Human Services works closely with its Chinese counterpart on improving disease surveillance and response to Avian Influenza, HIV/AIDS, and SARS. ♦

Public Diplomacy

Rice Announces Videoconference Pilot To Expedite Student Visa Processing

Secretary of State Condoleezza Rice announced January 17 that later in 2006 the State Department will begin testing, through a pilot project in the United Kingdom, the use of videoconferencing to conduct student visa interviews. In addition, the United States will begin issuing visas to foreign students up to 120 days before classes begin, as compared to 90 days under the current system, she said.

The videoconference pilot and new visa policies are part of a four-pronged initiative aimed at increasing educational exchanges. Rice unveiled the plan January 5 at the U.S. University Presidents Summit on International Education. She said one of her "highest priorities" is to reinvigorate U.S. efforts to connect America to the people of the world through education.

Rice said the other three principles underlying this initiative include (1) expanding exchange efforts, such as the Fulbright and Gilman International Scholarship programs, (2) cultivating new relationships for education exchange with countries playing an increasingly important international role, such as China and India, and (3) making U.S. universities more accessible to talented but underprivileged students and to students of diverse backgrounds.

State Department Will Launch New Journalism Exchange Program In April 2006

In the coming months, the State Department will inaugurate the Edward R. Murrow Journalism Program, an initiative that will bring up to 100 up-and-coming leaders in the field of journalism from around the world to examine journalistic practices in the United States. The State Department's Bureau of Educational and Cultural Affairs will select the exclusive group of foreign journalists, working in conjunction with the Aspen Institute and six leading U.S. journalism schools.

The program participants will be divided into groups to travel to the campuses of the partner schools of journalism. They will take part in intensive seminars and field activities with faculty and American students that highlight U.S. journalistic standards. The participants will also travel to state capitals and small towns to gain insight into media coverage of local politics and to observe American civic life.

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APEC to do things for which it was not designed. So, in order for the United States to remain effectively engaged in APEC and regional affairs, it must have a clear understanding of what the organization can deliver and how that may complement U.S. initiatives in other organizations.

Another way for the United States to engage in the development of an East Asian architecture is through so-called track-two institutions, like PECC [the Pacific Economic Cooperation Council]. Track-two institutions are important because they enable conversations about regional architectures between governmental and non-governmental representatives that would not be possible in official bodies.

In these regional structures, there are many different interests. Countries are at different stages of development. There is also a strategic agenda in the background even though the focus may appear to be only on economic issues. For these reasons, government officials can be a bit constrained in formal settings about what they say but find a useful platform for maneuver in track-two processes. In PECC and other track-two structures participants are at liberty to float proposals or ideas. No one is forced to make a formal commitment.

It would be very useful if more members of the business community participated in track-two discussions. If American business is worried about possible U.S. exclusion from East Asian arrangements, they should certainly raise this in groups like PECC.

USAPC: At the WTO Ministerial in Hong Kong last December, the U.S. pledged to substantially increase aid aimed at building the trading capacity of developing countries. What does the book have to say about the impact of aid for trade-related purposes?

Findlay: There are several strong references to trade-related aid in the chapter by Dr. Bernard Hoekman, a senior advisor at the World Bank. He argues that explicit aid systems are preferable to current preferential market access arrangements, such as the U.S. Generalized System of Preferences (GSP) program. Hoekman advocates converting the GSP program into one that would transfer resources for the express purpose of developing trading relations.

The traditional view of APEC is that it has three interrelated components—trade liberalization, trade facilitation, and capacity-building. The U.S. aid package would therefore support an important objective of APEC.

USAPC: The WTO Ministerial hit an impasse over establishing negotiating ground rules for liberalizing trade in services. Does the book present any insights

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into the potential for services trade in the East Asia?

Findlay: Dr. Philippa Dee of the Australian National University contributed a chapter that examines key issues in opening Asian markets for services. Importantly, she discusses why it is difficult to liberalize trade in services via multilateral negotiations.

Dr. Dee notes that the benefits of reforming services trade are quite different from the benefits of reforming trade in goods. Governments can better address domestic opposition to opening a protected product market by showing that foreign competitors are also dismantling trade barriers. One country's commitment to reform is met by reciprocal commitments from trading partners, which can be fed back into its domestic political system and vice versa. There is a complete circle. We document these reforms in the WTO and then enforce them.

With services, however, the issue is not simply allowing foreign access to one's domestic market—although that tends to be the focus of negotiations. That approach does not deal with the full set of issues that limit entry of new service providers.

If all you did was allow a foreign service provider

"[F]reer trade in services would yield substantial benefits. But the major trading nations have been using the wrong institutional process to drive reforms . . . "

into a protected market, that would not do much to spur competition or provide more choices. You would just be deciding who would get a seat at the table, but the doors to the market would remain closed. What you really want to do is completely open the door to foreign providers so you create a more competitive market.

Dr. Dee's research reveals that freer trade in services would yield substantial economic benefits. But the major trading nations have been using the wrong institutional process to try to drive the reform process. She argues that services should be driven by domestic interests.

Nevertheless, it is important to have services on the table in the WTO round because this might serve as the instigator for domestic reform. The WTO negotiating process also would pin members down by requiring them to document services reforms.

Dr. Dee argues that a multilateral agreement governing services trade is far preferable to bilateral agreements. Through the latter, one basically decides on the sequence of market entry. And in many services markets, being the first entrant often provides huge advantages.

USAPC In Action

Congressional Study Group on Asia Pacific Trade & Investment:

"Vietnam and the Asia-Pacific: APEC

Leadership in 2006" - On February 6, USAPC kicked off its 2006 series of Congressional Study Groups on Asia Pacific Trade & Investment. The program, held exclusively for congressional staff, featured a discussion about how Vietnam hopes to shape the agenda in the Asia Pacific Economic Cooperation (APEC) forum this year, how it sees its diplomatic role in the region, and how U.S. businesses might expect to benefit. Vietnam is the chair APEC 2006 and will host the APEC Leaders Meeting on November 18-19 in Hanoi.

Speakers included (1) Mr. Cao Tran Quoc Hai, Counselor and Head, Economic Section, Embassy of Vietnam, (2) Mr. Michael Michalak, Senior U.S. Official to APEC, and (3) Mr. Raymond Sander, Senior Vice President, New York Life International.

The East-West Center's Congressional Study Groups provide fora for the dissemination of research and discussions of key issues in U.S.-Asia relations of potential interest to U.S. lawmakers. The Study Group on Asia Pacific Trade & Investment addresses current issues arising from the ever-deepening U.S. economic relationship with the nations of the Pacific Rim.

For example, if a country allowed access to an Australian service provider via bilateral negotiations, one would hope that the Australian provider is a good operator and globally competitive—but it may not be. As the country opens its market more broadly, even qualitatively superior suppliers might find it difficult to establish a presence and compete effectively because the first entrant has been able to establish a beachhead and now dominates the market. This is another reason why U.S. business must provide input to global trade negotiations via institutions like APEC and PECC.

USAPC: What does the book say about the competition between Japan and China for regional leadership? How would this competition affect U.S. stature in the region?

Findlay: This is a huge issue. The book considers principles underlying the design of institutional arrangements and forms of regional cooperation. Whether the arrangements will actually be created is unclear, however, because the nations of the Asia Pacific are pursuing their

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Asia Pacific Dialogue

Vietnam Launches APEC 2006 National Committee

On January 25, His Excellency Deputy Prime Minister Vu Khoan, Chairman of the National Committee on APEC 2006, formally launched the committee and its official website—www.apec2006.vn/. He said that APEC 2006 is the most significant international event that Vietnam will have ever hosted, the highlight of which will be APEC Summit Week, November 12-19 in Hanoi.

The theme of APEC 2006 is “Towards a Dynamic Community for Sustainable Development and Prosperity.” DPM Vu pledged that Vietnam would continue to build upon the achievements of the APEC process leading to the creation of a region of “shared prosperity for the benefit of every citizen.”

Key dates for the 2006 APEC year include:

- APEC Business Advisory Council (ABAC), First Meeting, January 22-25, Singapore

- APEC Senior Officials Meeting (SOM) I, February 20-March 3, Hanoi
- ABAC, Second Meeting, May 9-12, Montreal, Canada
- APEC Energy Working Group and Energy Business Network, May 15-19, Singapore
- APEC SOM II, May 20-30, Ho Chi Minh City
- APEC Trade Ministers Meeting, June 1-2, Ho Chi Minh City
- ABAC, Third Meeting, August 14-17, Cebu, the Philippines
- APEC SOM III, September 3-14, Nha Trang
- APEC Finance Ministers Meeting, September 4-8, Hanoi
- ABAC, Fourth Meeting, November 14-16, Hanoi
- APEC Joint Ministerial Meeting, November 15-16, Hanoi
- APEC CEO Summit, November 17-19, Hanoi
- APEC Leaders Meeting, November 18-19, Hanoi

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own interests simultaneously. One might consider developing a regional arrangement based on an efficient set of structures and allocation of tasks.

But what actually develops may not be driven by broader conceptions of efficiency. Rather, it may be driven by the narrower interests of key regional players. So we see competition between China and Japan creating uncertainty in this institution-building process.

Hadi Soesastro, who co-edited the book with me, has some insightful comments about Sino-Japanese competition in relation to the East Asian Summit (EAS). He says the purpose and timing of the EAS has been fractured by this competition. For East Asia as a whole, the EAS potentially has much to offer all parties. But instead, the EAS has emerged as a structure whose membership is designed to surround China rather than to deliver regional outcomes efficiently.

Why is India in the EAS? Is India a member because it can offer something special toward the design of trade and investment arrangements and other things good for the region? Or is India—along with Australia and New Zealand—in the EAS simply to have more people at the table so that China is not so important. Ideally, one would want a regional structure like the EAS to include members who will get the job done. But the strategic interests of particular players end up confusing that objective.

The best way to cope with China’s emergence and to deal with the potential rivalry between China and Japan

is through very open arrangements, like APEC and the track-two institutions.

USAPC: Is there sufficient political will in East Asia, particularly in the less developed countries, to undertake political and economic reforms necessary to develop and realize greater prosperity?

Findlay: No, at this stage there is not. There will never be sufficient political will to push through difficult reforms if a country attempts them in isolation. That was the point of creating APEC, PECC and other regional structures so that countries would have more confidence in managing their reform processes. They would be able to observe that if they open up, they would gain various benefits because their neighbors also are reforming. Alternatively, they might observe the extent to which a neighbor has benefited from such policy changes. Regional institutions are all about building confidence in the development of good policy practice.♦

Since November 2005, Christopher Findlay has been Professor and Head of the School of Economics, the University of Adelaide, Australia. Before that he was Professor of Economics in the Asia Pacific School of Economics and Government of the Australian National University. Professor Findlay is also Vice-Chair of the Australian Pacific Economic Cooperation Committee (AUSPECC).

Bush Proposes \$50-Plus Million To Support Asian Clean Energy Initiative

In the FY07 budget, President Bush is proposing \$52 million to support the newly launched Asia Pacific Partnership for Clean Development and Climate, Secretary of State Condoleezza Rice said February 9. The secretary spoke to the Washington media just prior to meeting with ambassadors from the five other countries participating in the initiative -- Australia, China, India, Japan, and South Korea.

The budget allocation underscores this Administration's commitment to developing cleaner and more secure sources of energy, Rice said, and the Asia Pacific partnership is an important part of this commitment. "Through our partnership we seek to move beyond divisive politics and to advance common purposes . . . [T]ogether we represent a powerful force for positive change."

The Asia Pacific partnership is a business-government initiative that aims to enhance energy security, promote economic growth, reduce greenhouse gas emissions, and facilitate the sharing of energy technology. The United States launched the initiative in July 2005 ostensibly to complement the 1992 United Nations Framework Convention on Climate Change and the 1997 Kyoto Protocol to that accord.

Australia hosted the partnership's first meeting January 11-12. The participants agreed to establish eight public-private task forces that will accelerate clean technology deployment and share best practices pertaining to cleaner use of fossil energy, renewable and distributed generation, power generation and transmission, aluminum, steel, cement, mining and building, and appliances.

Secretary of Energy Samuel Bodman said the Asia Pacific partnership affords a unique new way to harness the private sector to address climate change. "It is the private sector that makes the investment decisions," he said, "it is the private sector – in all of these countries, not just the U.S. – that develops the technology, it is the private sector that gains the benefits from those investments and is in a position to share."

Secretary Rice also emphasized the importance of private-sector participation in the initiative. At the February 9 press briefing, she acknowledged the seven American "CEO partners." "By deploying your best technologies and practices, we will lower the cost of production, we will reduce air pollution and greenhouse gas emissions, and we will develop and bring to the marketplace the next generation of technologies to enhance our energy security and our national security," she said.

In addition, Rice expressed appreciation to Senators Chuck Hagel (R., Nebraska) and Mark Pryor (D.,

Arkansas) for their sponsorship of an amendment to the 2005 Senate energy bill. It authorized financial incentives to encourage the development and deployment of "green technologies" by U.S. firms. Senator Pryor told the gathering of senior Administration officials, ambassadors, and business executives that the goal of the so-called Hagel-Pryor amendment was to encourage partnerships at the domestic and international level in a constructive way. ♦

U.S.-Asia FTAs Assume Greater Importance

For the past four years, the Bush Administration has pursued trade liberalization in the Asia Pacific by negotiating bilateral Free Trade Agreements (FTAs). The U.S. Trade Representative's (USTR) office undertook these negotiations concurrent with multilateral, market-opening talks under the auspices of the World Trade Organization (WTO) -- a strategy called "competitive liberalization."

The WTO talks are at an impasse, however, owing to disagreements about liberalizing agricultural trade, among other disputes. On February 15, USTR Rob Portman all but admitted to the House Ways and Means Committee that the 149-member global trade body may not conclude an agreement by the end of 2006 as planned. If the talks indeed stall, Portman said the United States would continue to promote its trading interests via bilateral FTAs.

Some experts maintain it is important for Washington to pursue FTAs with Asia Pacific nations regardless of what happens in the WTO. They say such agreements would ensure that the United States (1) remains a leading economic force in the region and (2) does not find itself effectively excluded by the growing web of FTAs between and among Asia Pacific nations. The following summarizes the status of U.S.-Asian trade agreements:

- Enterprise for ASEAN Initiative (EAI) - In October 2002, Washington launched the EAI. It offers the prospect of bilateral FTAs with members of the Association of Southeast Asian Nations (ASEAN). Any potential FTA partner must be a WTO member and have concluded a Trade and Investment Framework Agreement (TIFA) with the United States.
- U.S.-Australia FTA - went into effect January 1, 2005.
- U.S.-Malaysia TIFA - signed May 10, 2004.
- U.S.-Singapore FTA - went into effect January 1, 2004.
- U.S.-South Korea FTA - negotiations will begin in May 2006
- U.S.-Thailand FTA - negotiations began in June 2004, and may conclude in 2006. ♦



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Former Member of Congress

Amb. Linda Tsao Yang
Board Director, Pacific Pension Institute

The United States Asia Pacific Council (USAPC) was founded in April 2003 by the East-West Center (EWC). It is a non-partisan organization comprised of prominent American experts and opinion leaders, whose aim is to promote and facilitate greater U.S. engagement with the Asia Pacific region through human networks and institutional partnerships.

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